



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 31, 2001

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

A handwritten signature in cursive script that reads "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Counter Response to the Report - *Oversight of the Philadelphia Lockbox Bank Should Be Improved*
(Reference No. 200040058)

We have reviewed the subject response and plan to include it on our Internet site along with the associated audit report. Your response highlights several positive steps you are taking in response to our recommendations. Specifically, we are pleased that you are making plans to penalize the bank for sorting errors and that these penalties will be in effect for the 2002 income tax filing season. We also concur with the other actions you are taking to improve oversight of the lockbox operations.

You do, however, still disagree with our outcome measure of \$109,056 and note that conducting 100 percent reviews when warranted improves your oversight of lockbox banks. While we acknowledge the need for management oversight, we have not changed our position on the validity of the outcome measure. As discussed in my April 20, 2001 memorandum, we believe that the Internal Revenue Service should not use its own resources to sort tax returns when they pay banks to perform this function. If the IRS continued this practice, we recommended that it penalize the bank for sorting errors. As noted, you have accepted this recommendation and will soon begin to assess these penalties.

Please contact me at (202) 622-6510 if you have questions, or your staff may call Susan Boehmer, Acting Assistant Inspector General for Audit (Wage and Investment Income Programs), at (770) 936-4590.